

## 2007-08 Executive Summary

# GENERAL FUND OVERVIEW

This section highlights the actions Council took to balance the budget for 2007-08. It focuses on the changes Council made from the Preliminary Budget. Specifically it: 1) discusses the spending limits imposed, 2) identifies those programs which were proposed by the Mayor in the Preliminary Budget and subsequently not funded by Council, 3) summarizes the funding shortfalls in the base budget, and 4) describes how money was allocated within the 2007-08 Budget and the associated implications. A brief synopsis of the Council's final budget decisions can be found in Exhibits 1 and 2 which follow this narrative.

This budget differs from prior years as the Council imposed spending limits which capped expenses by each City department. Although the Administration has discretion to manage within these limits, most of the departments will not have enough money to provide services at the same level as in the previous biennium. This is because many of the programs proposed in the Preliminary Budget to prevent further deterioration of basic citywide operations, mitigate risk, comply with mandates and ensure effective delivery of all municipal services were eliminated or significantly reduced. These proposed programs totaled \$3.2 million as summarized in Exhibit 3. In addition, funding for basic operations was reduced by \$2.7 million from the Preliminary Budget. While all departments were underfunded, the base reductions were disproportionately spread among them. Decreases ranged from a low of \$11,900 or 3.7% in the Council's budget to a high of \$441,000 or 18% in the Mayor's Office and \$1 million or 9.2% in Finance/Information Services. Financial support for Police's and Fire's basic operations was also reduced by \$201,000 and \$115,000, respectively. It is important to note that the Council eliminated the ongoing funding for community events and used one-time dollars to support these activities during the biennium. In addition, Council reduced the level of funding for this program from \$215,000 to \$197,359.

To better understand the challenges the City will face in 2007-08, it is important to consider not only the funding reductions in the base budget, but also the proposed programs eliminated which were intended to address critical deficiencies. Not providing resources for these efforts will adversely affect the delivery of city services. For example in Police, in addition to basic operations being underfunded by \$201,000, the additional resources proposed to address the shortage in overtime were cut by the Council. Overtime is a cost which exceeded budget by approximately \$700,000 in the previous biennium. Also, the budget for the 5 new Police positions was cut by \$25,000 as part of the budget balancing process. As a result, the Police Department does not have enough money to pay for existing operations, overtime and the new positions as the budget is underfunded by \$926,000. This is one specific example of the implications of Council's budget decisions, but similar situations exist in other City departments such as the Mayor's Office, Human Resources and Finance/Information Services. These departments cannot maintain services and respond to the demands of a growing community given the shortage of funding. Specific information regarding departmental budgets can be found under the tab labeled "General Fund Expenses" later in this document.

Because the City has been cutting services and containing costs for the last six years despite the significant growth in Redmond's residential and business population, further reductions

will be visible. To stay within limited resources, the City has employed a number of measures including eliminating positions, filling vacancies only when critical, instituting dependent medical premium cost sharing for most city employees, scrutinizing and cutting back on overtime, supplies and other daily operating expenses and foregoing investments in capital equipment. Since 2003, resources for General Fund programs/services have decreased by \$7.8 million and 17 positions have been eliminated. Please refer to Exhibit 4 for a summary of these reductions by department.

The 2007-08 Budget includes money for the following Council objectives:

- Reinstates the 5% transfer to the Capital Improvement Program (CIP), raising the general contribution level to this fund to \$17.9 million or 13.9% of general revenues.
- Adds 8 firefighters (\$1.5 million) and 5 Police personnel (\$775,000). (Note: The Police positions were funded with one-time money after Council reduced the proposed budget for these positions by \$25,000.)
- Creates a \$250,000 contingency for an outcome based budgeting project.
- Establishes a \$200,000 placeholder for an economic development initiative.
- Supports an additional Utility Billing Technician to respond to growth in the City, Redmond Ridge and Trilogy (\$112,040). (Note: The Council cut the proposed budget for this position by \$2,300.)
- Provides funding for lifeguards at Idylwood Beach Park (\$40,000).
- Increases the allocation to the capital equipment replacement fund on a one-time basis by \$525,000. (Note: This is \$675,000 less than the Preliminary Budget proposal of \$1.2 million.)

To fulfill the objectives identified above, the Council not only had to reject the proposed programs in the Preliminary Budget intended to address critical deficiencies in city operations, but it also had to reduce base funding for existing city services and use one-time money to pay for the 5 new Police positions. As a result, city services cannot be provided at the same level in 2007-08 as in the previous biennium and a \$775,000 deficit has been created which needs to be remedied in the next biennium with new revenues or further cuts.

The Council did not approve any of the General Fund supplemental packages recommended in the Preliminary Budget. However, it did indicate its support for and subsequently approved the Microsoft proposal in early 2007 which authorized the hiring of additional staff to process the new Microsoft development. Not approved were the two packages calling for a \$30 increase in the business tax and a property tax levy lid lift proposal of 26 cents per \$1,000 of assessed valuation requiring voter approval. These requests included monies to fully staff the Overlake Fire station, provide an aid car at NE Education Hill Fire Station, bring staffing up in Police to meet minimum levels to serve the City's residential population including full restoration of the school safety programs and pay for maintenance and operations for new and existing parks facilities. At the time of this writing, the Council was working on placing two alternative propositions on the August 2007 ballot for public safety and parks. These proposals, if approved, will cover some, but not all of the Police Department's critical needs. However, the cost of these services are expected to quickly outpace the revenue generated by the levy lid lifts creating deficits in future years which must be fixed. Because the levy

outcomes are unknown, no adjustments have been made to the 2007-08 Budget to reflect these initiatives.

Overall, the 2007-08 General Fund budget rose 5.75% per year or 11.5% for the biennium (Exhibit 5). Funding for basic operations increased 7.3% for two years or 3.65% annually. The remaining 4.2% increase in the budget was allocated to the 5% transfer to the Capital Improvement Program (CIP), City Hall, reserves and new programs. The 5% transfer to the CIP increased 13.7%, the allocation to City Hall rose 21.9% and reserve contributions grew from zero dollars in 2005-06 to \$1.4 million. The Council dedicated \$3.4 million to new programs. It is important to note that the 3.65% annual increase approved for operations is less than the anticipated rise in salary and benefit costs, which represent nearly 70% of the General Fund's budget. As a result, there will not be enough money to maintain services at the same level as in the previous biennium and services to the public will continue to deteriorate.

Following are Exhibits 1 through 5, which provide more detailed information about the General Fund's budget.

**Exhibit 1** is a synopsis of the changes Council made between the Preliminary Budget and the Final Budget to establish the spending caps by department for 2007-08.

<b>Exhibit 1</b>						
<b>Net Effect of Council's Decisions on the 2007-08 Budget</b>						
	<b>2007-08 Preliminary Budget</b>	<b>Elimination of Proposed New Programs</b>	<b>2007-08 Base Budget Reductions</b>	<b>Subtotal of Council's Reductions</b>	<b>2007-08 Council Additions</b>	<b>2007-08 Council Adopted Budget</b>
<b>Base Budget by Department</b>						
City Council	\$320,872	\$0	(\$11,908)	(\$11,908)		\$308,964
Executive	\$2,750,717	(\$87,924)	(\$440,947)	(\$528,871)		\$2,221,846
Finance/I.S.	\$13,445,405	(\$970,475)	(\$1,023,704)	(\$1,994,179)	\$250,000	\$11,701,226
Fire	\$28,932,944	\$0	(\$114,864)	(\$114,864)	\$0	\$28,818,080
Human Resources	\$2,279,179	(\$181,000)	(\$58,449)	(\$239,449)		\$2,039,730
Legal	\$1,646,377	\$0	(\$47,658)	(\$47,658)		\$1,598,719
Non-Departmental	\$13,352,580	(\$935,284)	(\$306,642)	(\$1,241,926)	\$5,654,514	\$17,765,168
Parks	\$9,902,283	(\$342,716)	(\$75,011)	(\$417,727)	\$20,000	\$9,504,556
Planning	\$10,300,741	\$0	(\$55,145)	(\$55,145)		\$10,245,596
Police	\$27,603,974	(\$725,000)	(\$201,103)	(\$926,103)	\$0	\$26,677,871
Public Works	\$16,390,408	\$0	(\$132,375)	(\$132,375)		\$16,258,033
Firemen's Pension Adj.				\$0	\$180,143	\$180,143
Fundwide Reductions			(\$200,000)	(\$200,000)		(\$200,000)
Economic Development					\$200,000	\$200,000
<b>Total</b>	<b>\$126,925,480</b>	<b>(\$3,242,399)</b>	<b>(\$2,667,806)</b>	<b>(\$5,910,205)</b>	<b>\$6,304,657</b>	<b>\$127,319,932</b>

**Exhibit 2** identifies Council approved programs. Some of these programs were included in the Preliminary Budget while others were added by Council as part of its final budget decisions.

<b>Exhibit 2</b>	
<b>Council Approved Programs</b>	
<b>Included in the Preliminary Budget:</b>	
Finance/I.S.:	\$112,040 Utility Billing position (Council cut funding by \$2,300 from the Preliminary Budget.)
Fire:	\$1,500,000 8 Firefighters
Non-Departmental:	\$525,000 Capital Equipment Reserve transfer (One-time money; Council cut funding by \$675,000 from the Preliminary Budget.)
Parks:	\$20,000 Additional funding for lifeguards at Idylwood
Police:	\$775,000 5 Police positions (Council changed the funding from ongoing dollars to one-time money and reduced the allocation by \$25,000 from the Preliminary Budget.)
<b>Subtotal</b>	<b>\$2,932,040</b>
<b>Council Additions:</b>	
Finance/I.S.:	\$250,000 Outcome base budgeting (One-time money)
Non-Departmental:	\$5,654,514 Reinstatement of 5% transfer to CIP
Non-Departmental:	\$200,000 New economic development initiative (One-time money)
Parks:	\$20,000 Additional funding for lifeguards at Idylwood
Technical Correction:	\$180,143 Firemen's Pension Adjustment
<b>Subtotal</b>	<b>\$6,304,657</b>
<b>Total Council Approved Programs</b>	<b>\$9,236,697</b>

**Exhibit 3** is a listing of the new programs, which were proposed in the Preliminary Budget to address critical deficiencies in operations, mitigate risk, comply with mandates and ensure effective delivery of city services, but were subsequently eliminated and/or reduced as part of the Council’s final budget decisions. For more information regarding these programs, please refer to departmental budgets in the “General Fund Expenses” section later in this document.

<b>Exhibit 3</b>	
<b>New Programs Eliminated and/or Reduced from the Preliminary Budget</b>	
<b>Program Initiatives by Department</b>	<b>2007-08 Budget</b>
<b>Executive</b>	
● Webmaster (0.50 FTE) to continue to provide the current level of web services.	(\$87,924)
<b>Finance and Information Services</b>	
● Payroll analyst (1.0 FTE) to meet payroll and comply with mandates.	(\$116,906)
● Sr. Financial Analyst (1.0 FTE) to address deficiencies in providing forecasting and fiscal analysis support citywide.	(\$230,000)
● Records Management to comply with mandates and better manage the City's records.	(\$150,000)
● Computer for new Utility Billing position which is 100% paid by Utilities.	(\$2,300)
● Help Desk Analyst (1.0 FTE) to ensure business continuity and critical technology support.	(\$119,626)
● Data security to combat identity theft by mitigating risks with appropriate safeguards.	(\$135,291)
● City disaster recovery plan to ensure power/communication channels are available so the City can respond to the needs of the community after a major disaster.	(\$216,352)
<b>Human Resources</b>	
● Generalist (1.0 FTE) to enable the department to pursue cost-containment initiatives in healthcare and develop effective recruitment strategies.	(\$181,000)
<b>Non-Departmental</b>	
● Reduced funds to replace critical city equipment from \$1.2 million to \$525,000.	(\$675,000)
● Salary and benefit contingency which is used to fund costs of labor settlements.	(\$260,284)
<b>Parks</b>	
● Ongoing maintenance/operations of Parks and right of way capital projects completed prior to 2007.	(\$229,000)
● Teen Center Program Assistant to meet the critical needs of business/programming operations.	(\$113,716)
<b>Police</b>	
● Additional money to address the systemic funding problem in Police Overtime.	(\$700,000)
● Reduced funding for 5 Police positions from \$800,000 to \$775,000	(\$25,000)
<b>Total</b>	<b>(\$3,242,399)</b>

**Exhibit 4** provides a recap of the funding reductions by department since 2003. To date, General Fund resources have been reduced by \$7.8 million and 17 positions have been eliminated despite the growth in Redmond's residential population and vast commercial base.

<b>Exhibit 4</b>				
<b>Departmental Reductions Since 2003</b>				
<b>Department</b>	<b>2003-04 Reductions</b>	<b>2005-06 Reductions</b>	<b>2007-08 Reductions</b>	<b>Total 2003-2008</b>
City Council	(\$3,000)	\$0	(\$11,908)	(\$14,908)
Executive (Mayor's Office)	(\$7,000)	(\$5,040)	(\$440,947)	(\$452,987)
Finance/I.S.	(\$403,104)	(\$302,346)	(\$1,023,704)	(\$1,729,154)
Fire	(\$302,530)	\$0	(\$114,864)	(\$417,394)
Human Resources	(\$63,855)	\$0	(\$58,449)	(\$122,304)
Legal	\$0	(\$34,000)	(\$47,658)	(\$81,658)
Non-Departmental	(\$692,931)	\$0	(\$306,641)	(\$999,572)
Parks	(\$245,460)	(\$110,002)	(\$75,011)	(\$430,473)
Planning	(\$564,879)	(\$375,478)	(\$55,145)	(\$995,502)
Police	(\$329,721)	\$0	(\$201,103)	(\$530,824)
Public Works	(\$727,000)	(\$983,565)	(\$132,376)	(\$1,842,941)
Fund Wide Reductions			(\$200,000)	(\$200,000)
<b>Total</b>	<b>(\$3,339,480)</b>	<b>(\$1,810,431)</b>	<b>(\$2,667,806)</b>	<b>(\$7,817,717)</b>

**Exhibit 5** is an analysis of the General Fund budget. It breaks the budget down into three major categories: 1) Base Budget, which includes existing services only, 2) Special Items, which reflect the 5% transfer to the Capital Improvement Program and allocations to City Hall and reserves, and 3) new program initiatives, which are being funded for the first time in 2007-08. Although the 2007-08 Budget rose overall by 5.75% per year or 11.5% for the biennium, funding for basic operations increased by only 3.65% annually or 7.3% over two years. It is important to note that this increase is less than the anticipated rise in salary and benefit costs as the base budget was underfunded by \$2.7 million for 2007-08. As a result, there is not enough money in the budget to pay for the same level of service previously provided in 2005-06.

<b>Exhibit 5</b> <b>Breakdown of General Fund Budget</b> <b>2005-06 vs. 2007-08</b>				
	2005-06 Budget	2007-08 Budget	2-year % change	1-year % change
<b>Base Budget by Department</b>				
City Council	\$324,972	\$308,964	-4.9%	-2.5%
Executive (Mayor's Office)	\$2,443,877	\$2,221,846	-9.1%	-4.5%
Finance/I.S.	\$11,076,712	\$11,339,186	2.4%	1.2%
Fire	\$25,813,891	\$27,318,080	5.8%	2.9%
Human Resources	\$1,883,764	\$2,039,730	8.3%	4.1%
Legal	\$1,412,359	\$1,598,719	13.2%	6.6%
Non-Departmental (excl. CIP/City Hall/Reserves)	\$7,559,895	\$8,445,293	11.7%	5.9%
Parks	\$8,701,384	\$9,464,556	8.8%	4.4%
Planning	\$9,671,971	\$10,245,596	5.9%	3.0%
Police	\$23,261,722	\$25,902,871	11.4%	5.7%
Public Works	\$14,979,401	\$16,258,032	8.5%	4.3%
Fundwide Reductions*		(\$200,000)	n/a	n/a
<b>Total Base Budget</b>	<b>\$107,129,948</b>	<b>\$114,942,873</b>	<b>7.3%</b>	<b>3.6%</b>
<b>Special Items:</b>				
5% CIP Transfer	\$4,971,516	\$5,654,514	13.7%	6.9%
City Hall incl existing leases/maint of old City Hall	\$1,595,860	\$1,945,860	21.9%	11.0%
Reserves		\$1,374,645	n/a	n/a
<b>Total City Hall/Reserves</b>	<b>\$6,567,376</b>	<b>\$8,975,019</b>	<b>36.7%</b>	<b>18.3%</b>
<b>New Programs/Targeted Allocations</b>				
Records Management	\$500,000			
Utility Billing		\$112,040		
Economic Development		\$200,000		
Outcome based Budgeting (one-time money)		\$250,000		
8 Firefighters		\$1,500,000		
Capital Equipment Reserve transfer (one-time money)		\$525,000		
Lifeguards at Idylwood		\$40,000		
5 Police positions (one-time money)		\$775,000		
<b>Total New Programs/Increased Allocations</b>	<b>\$500,000</b>	<b>\$3,402,040</b>	<b>580.4%</b>	<b>290.2%</b>
<b>Total General Fund Budget</b>	<b>\$114,197,324</b>	<b>\$127,319,932</b>	<b>11.5%</b>	<b>5.7%</b>

\*This is a Council approved reduction which was not attached to a specific department.

## **FUTURE CHALLENGES**

This section summarizes the challenges the City will face in maintaining services in 2007 and beyond. In addition to the \$775,000 deficit created by using one-time money to pay for the 5 new Police positions, revenues will not be sufficient in 2009 and beyond to pay for the rising cost of General Fund services and known deficiencies in public safety, parks and citywide operations. Without new revenue, service to the public will continue to be cut and the City's ability to respond to the demands of a growing community will be limited.

At the time of this writing, the Council was working on placing two propositions on the August 2007 ballot for public safety and parks. These proposals, if approved, will cover some, but not all of the critical deficiencies identified below. It is important to note, while the levy lid lift proposals would provide enough revenue to establish some of these public safety and parks programs, costs will quickly outpace the revenues creating further budget deficits in future years which must be fixed. Because the levy outcomes are unknown, no adjustments have been made to the 2007-08 Budget to reflect these initiatives.

Major service and funding deficiencies include the following:

- The cost of services approved in the 2007-08 Budget is anticipated to rise faster than revenues by approximately \$1 million in the next biennium. Because the City is required under state law to have a balanced budget, either revenues will need to be increased or further cuts must be made.
- The Council used \$775,000 of one-time money to pay for 5 Police positions in 2007-08 which must be remedied in 2009-10. If the \$0.35 public safety levy lid lift proposal is approved it would provide enough money in 2009-10 to cover the costs of these positions, but thereafter expenses will grow faster than this revenue source.
- The Police Department needs \$2.3 million annually or \$4.6 million for two years to hire an additional 19 positions over and above the 5 approved in 2007-08 to bring staffing up to meet minimum levels to serve the City's residential population and fully restore the school safety program. These numbers ignore the additional demands from Redmond's vast commercial base. According to Police, without minimum staffing, emergency response will be impacted and deployment of staffing to school safety programs will be reduced. A \$0.35 levy lid lift proposal will be placed before voters on August 2007. If approved, it will address some, but not all of these needs. These costs will also grow significantly faster than the property tax revenue generated by this proposal.
- There are no dollars available to cover systemic shortages in Police overtime. Presently, the department must leave positions vacant to stay within approved budget levels. The Police Department needs an additional \$350,000 annually or \$700,000 over the biennium to cover this expense. No solution has been proposed to correct this situation.



- The General Fund does not have the resources to pay for 18 additional firefighters to fully staff the Overlake Fire Station #12 and provide an aid car at Northeast Education Hill Fire Station #17. The estimated cost of these positions is about \$2.2 million per year or \$4.4 million for two years. This is included in the August 2007 levy lid lift proposal which is pending voter approval. As mentioned before, this levy lid lift proposal would provide funds to establish this program, but costs will rise faster than this revenue source.
- Funding to maintain existing and new parks facilities and recreation programming is inadequate. The Parks Board recommended a \$0.10 levy lid lift to address deficiencies in parks maintenance and programs. Subsequent to the adoption of the budget the City Council decided to divert capital dollars in the amount of \$307,000 per year to cover deficiencies in existing parks maintenance. As a result, the Council opted to put forth to voters a \$0.05 levy proposal instead of the Parks Board's \$0.10 recommendation to maintain new parks facilities and support Teen Center, after school, and urban forestry programs. A \$0.05 increase in Redmond's portion of the property tax levy will equate to approximately \$600,000 annually or \$1.2 million over two years. This initiative is pending a decision by voters in August 2007. If approved the levy will generate sufficient resources in the short-term, but not in the long run to cover the cost of these programs.
- The replacement of critical city assets is not being properly funded. These include such things as computer hardware and software systems, telephones, radios, printers, copiers and safety and maintenance equipment. Although the Council indicated support in May 2007 to transfer the General Fund's 2006 year-end surplus to this fund, the City needs to raise replacement funding on a permanent basis by approximately \$250,000 per year or \$500,000 over a two-year period.
- No funds to prevent further deterioration of basic citywide operations, mitigate risk, comply with mandates and ensure effective delivery of all municipal services. As a result, services to the public will continue to deteriorate. A very conservative estimate of these needs is approximately \$1 million annually or \$2 million over two years.

All together these deficiencies total \$7.6 million per year or \$15.2 million for the biennium.

## AVAILABLE FUNDING OPTIONS

This section recaps the options presented to the Council in the Preliminary Budget which remain available for future consideration. Funding alternatives are organized in two categories: 1) those that can be approved by a majority vote of the Council and 2) those requiring voter approval.

### **Options which can be approved by a majority vote of the Council**

#### ***Redirect Existing Revenues***

- Reduce the level of funding to the Capital Improvement Program (CIP). In 2007-08, the City will transfer \$17.9 million or 13.9% of general funding to the CIP. This money is not restricted to capital under state law and therefore, could be used for General Fund purposes with a majority vote of the Council. A recent survey shows that Redmond makes the highest contribution of general funding to its CIP than surrounding cities.
- Reduce Human services per capita transfer which totals \$1.2 million/biennium.
- Reduce Arts per capita transfer which is budgeted at \$200,000/biennium.

#### ***Raise Taxes***

- Increase business license fees. There is no statutory limit on how much this fee may be increased. Each \$10 increase raises approximately \$700,000 per year or \$1.4 million over two years. Redmond's business license fee lags significantly behind other corporate hubs such as Bellevue, Seattle, and Tacoma.
- Increase property tax by 1%; generates \$250,000 for the biennium.
- Tap banked property tax capacity; worth \$3.8 million for two years. Note: This capacity will be eliminated if Redmond voters approve a property tax levy lid lift exceeding this amount.
- Tax City-owned utilities (\$5.5 million/biennium assuming a 6% utility tax rate); Redmond is one of the few cities which do not tax its own utility.
- Implement a business and occupation (B&O) tax on gross receipts which could generate up to \$35 million over a biennium. 39 Washington cities have implemented this tax.

#### ***Use One-Time Money Remaining in the Economic Contingency***

- Economy contingency: \$1.0 million after commitment to fund \$200,000 economic development initiative.
  - To use one-time money to fund ongoing expenses is contrary to City policy, but not without precedent (e.g., Council used \$1.6 million of contingency in 2005-06 budget and \$775,000 in 2007-08 to balance the budgets).

***Continue to reduce services to the public.***

- The City has been reducing services and containing costs for years. Through 2008, General Fund resources have been reduced by \$7.8 million and 17 positions have been eliminated.

**Options which require voters' approval**

- Ask the voters to approve bonds to pay for capital projects. This grants the City the authority to levy an excess property tax to meet debt service payments.

The excess property tax levy is a good source of revenue from which to pay debt service costs because it can be set at the level necessary to cover principal and interest on the debt. In addition, the City currently has very little debt outstanding.

- Current general obligation debt: \$42.5 million; remaining bond capacity \$793.6 million.
- No revenue bonds outstanding.

Ask the voters to approve a property tax levy lid lift for operations. This could yield ongoing revenue up to \$19 million annually or \$38 million biennially. The voters could be asked to approve a permanent levy or a multiple year levy lid lift.

There is no limit on the time horizon for a permanent levy lid lift, except if it is used to pay for debt service on bonds then the maximum time period is nine years. The Council may increase this levy up to 1% per year.

The multiple year levy has a maximum time horizon of six years. The levy can be increased for each of those six years by some stated amount which can be either a dollar amount, a percentage increase tied to an index such as the Consumer Price Index (CPI), or the percentage may be set arbitrarily.

*Note: A citizen survey conducted in 2006 indicated some support for redirecting existing revenues, tax increases and using bonds to finance major capital projects.*